

No.S-11012/1(12)/Pvt. Bank/CGA/2012/545-613

Government of India
Ministry of Finance
Department of Expenditure
Controller General of Accounts
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Dated : 09.04.2015

OFFICE MEMORANDUM

Subject:- Government agency business arrangement – appointment of private sector banks as agency banks of RBI.

I am directed to forward a copy of letter No.7/10/2012-BO.II dated 19.02.2015 of Department of Financial Services, Ministry of Finance, the contents of which are self explanatory.

2. Accordingly, only Public Sector Banks can be authorized for Government business as embargo on allowing further authorization of Government business to Private Sector banks would continue, as mentioned in the above cited letter.

Encls: As above.

T. Patra

(Tripti P Ghosh)

Dy. Controller General of Accounts

To

All Civil/Non-Civil Ministries/Departments, UTs.

Copy to:-

1. Office of the Comptroller & Auditor General, New Delhi.
2. Dy. CGA (ITD) with a request to upload this OM alongwith its enclosures on the website of CGA Office.
3. Dy. CGA (TA).
4. PPS to CGA.
5. PS to Addl. CGA (PK).
6. PS to Jt.CGA (MM).
7. PA to Dy. CGA (RBD).

File No. 7/10/2012-BO.II
Department of Financial Services
Ministry of Finance
Government of India

3rd Floor, Jeevan Deep Building,
Parliament Street, New Delhi-110001

Date: 19th February, 2015

Shri H. R. Khan
Deputy Governor
Reserve Bank of India
Central Office
Mumbai.

Subject: Government agency business arrangement – appointment of private sector banks as agency banks of RBI

Dear Sir,

I am directed to refer to the DO letter No. DGBA. GAD. No.371/42.01.033/2014-15 from the Reserve Bank of India (RBI) dated 23rd July, 2014 regarding allowing private sector banks to act as agency banks to undertake the Government business.

2. As you would recall, the Government had advised RBI, with the approval of the Finance Minister, on 8th July, 2008, that private sector banks, which were authorised to undertake the Government agency business, should have a clear roadmap to achieve certain acceptable levels of priority sector lending and implementation of Government schemes and achieve financial inclusion target on par with the public sector banks (PSBs) for allowing the existing private sector banks to continue to act as agency banks. Although a review of RBI in December, 2009 found that the three private sector banks did not achieve all the parameters fixed by RBI, however, RBI did not submit any comprehensive review and a clear and transparent new policy for authorisation of private sector banks, as was advised by



the Government, and instead issued a circular on 31st January, 2012 enabling all the private sector banks to handle Government business.

3. The matter of unilateral liberalisation of agency business on the grounds of enhancing the quality of customer service and increasing competition was reviewed at the level of the Finance Minister in September, 2012 and it was recommended to RBI and Controller General of Accounts (CGA) that liberalisation of Government business in favour of private sector banks may be postponed for a period of, say, three years and both RBI and CGA were advised that there should not be any further allocation of Government business to private sector banks for the time being. Further, RBI was advised to undertake a comprehensive review of the policy of authorisation of Government business to private sector banks and propose any changes with prior approval of the Government.

4. RBI has responded to the letter of Government to state that in so far as participation of PSBs and private sector banks in the priority sectors / sub-sector lending is concerned, the comparison of last two years shows (on the ground of achievement of Priority sector lending targets) that the overall performance of the private sector banks is in no way better or worse than the PSBs. Therefore, it would not be appropriate to differentiate between public and private sector banks for appointment of these banks as agency banks on the social sector lending criteria. RBI has, therefore, mentioned that postponing the revised dispensation granted to the private sector banks may not be appropriate in the context of the equity, fairplay and convenience for the banks.

5. The matter has been reviewed in the Government. It may be stated that priority sector performance was not the sole factor in deciding grant of agency business to private sector banks and the other important parameter was satisfactory implementation of Government Schemes and participation by such private banks in financial inclusion. No analysis of this important parameter has been done by RBI in recommending complete liberalisation of the agency business in favour of private sector banks.



6. In view of the above, Government is of the view that unless complete review of the functioning of private sector banks is done, there is no reason to review its present stance. Therefore, the embargo on allowing further authorisation of Government business to private sector banks would continue. Thus, both RBI and CGA are advised that there should not be any further allocation of Government business to private sector banks.

7. This issues with the approval of the competent authority.

Yours faithfully,

-sd-

(M.M. Dawla)

Under Secretary (BO.II)

Tel: 23748731

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Copy also to:

Shri Jawahar Thakur

Controller General of Accounts

Lok Nayak Bhawan

New Delhi.



(M.M. Dawla)